Postal Regulatory Commission
Submitted 8/1/2011 3:56:55 PM
Filing ID: 74345
Accepted 8/1/2011

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Rate Adjustment Due to Extraordinary or Exceptional Circumstances	: : :	Docket No. R2010-4R

DETAILED ANALYSIS – REPLY COMMENTS OF THE GREETING CARD ASSOCIATION

I. Introduction and Summary of Reply Comments Detailed Analysis

This detailed analysis supplementing GCA's Reply Comments focuses only on the Initial Comments filed in R2010-4R by the Postal Service. The first part examines the Postal Service's attempts at quantifying the volume impact of exigent circumstances occurring over the 2008-2009 period, as well as over the 2010 and 2011 period forecasted in the econometric demand model it submitted to the Commission on January 21, 2010 as part of the 2009 Annual Compliance Review (2009ACR). The second part compares the approach and findings of GCA in its detailed analysis accompanying its initial comments in R2010-4R to that of the Postal Service.

In its Initial Comments, the Postal Service is asking the Commission for at least 77% of its original $3 billion request for an across-the-board rate increase for the circumstance it deems exigent, the fall in aggregate postal volumes from 2007 through the present, including lower volumes during the recovery than would have occurred except for the recession. If the Commission grants (at least) this request for a $2.34 billion rate increase above any CPI cap, the Postal

Services states that it "is willing not to challenge this lower amount in order to facilitate resolution of this proceeding."[1]

The Postal Service presents five "methods" for quantifying the impact of its aggregate volume losses in PFY2008-PFY2009. Not surprisingly, all but one claims exigent losses in volume which translate into financial losses exceeding its original request, thus giving the superficial appearance that its exigent rate increase minimum is "reasonable" since it is at the bottom of its entire range of losses from its definition of the exigency. The provision of a menu of quantification methods may seem to show that the Postal Service has exhausted all possible points of view about the matter of linking and quantifying the exigency and its impact on postal volumes. At the outer limits, the Postal Service is claiming $11.86 billion in exigent losses including "losses" from the recovery period to date, whose volumes are lower than they would have been without the 2008-2009 recession. If taken seriously, this is an exigent rate "request" effectively 400% over its initial request in the case. It is $3.56 billion more than the Postal Service needs to close its projected $8.3 billion deficit in FY2011 in its entirety.[2] Taken literally, it reinforces the perception that the Postal Service has tried, and continues to try, to use its exigent request to solve a deficit that is due to multiple factors, not just the exigency.

In summary, the Postal Service presents what it believes to be a thorough, indeed exhaustive, examination quantifying the impact of (its definition of) the exigency. In fact, underlying each and every one of its five methods for quantifying its exigency (including Attachment 10 from the Masse initial comments in the case), the Postal Service's approach relies on exactly the same

[1] Initial Comments, page 31. It uses similar language at page 2. Presumably this means it will take the Commission to the Court of Appeals again if the Commission in this second round does not grant the Service at least three-fourths of its original request.

[2] The outer limits figure is the high end of the range from "Method Two", $7.24 billion plus the $4.62 billion in attributable cost cuts from Table Six, which USPS says it was unable to make to keep up with the volume declines from FY2007-FY2009.

foundation of quicksand in the methodologically unsound way in which it uses the mail volume demand model from the 2009ACR throughout.

II. The Postal Service's Attempts to Quantify Its Volume Losses "Due to" the 2008-2009 Recession

In estimating its exigency, the Postal Service attempts to net out volume losses due to the recession versus volume losses not due to the recession. However, in the process it ignores the fundamental macroeconomic fact about recessions: in general and on average these are normally recurring events, and as such are not in the least "extraordinary." They may be "exceptional" events, if they are severe enough; but even then they qualify as "exceptional" only in part.

Especially since this is a precedent setting ruling for future exigent filings, it would be a serious error by the Commission if it accepts the Postal Service's dichotomization in lieu of the more fundamental consideration. Neither a mild nor an average recession is an exigent event in its entirety. It necessarily follows, especially under any reasonably precise definition of "due to," that a severe recession – defined as one above average in severity – cannot be entirely exigent, because had it been of only average severity or less, it would be entirely non-exigent.

The only way from a macroeconomic standpoint that the Commission can prevent an abuse of the intent of PAEA from, for example, a very mild, two quarter recession being an excuse for requesting an exigent rate increase, is to exclude a percentage of volume losses from a recession like 2008-2009 as being exigent (i.e., "exceptional") losses. Because there is no known or reliable relationship between the magnitude of recessions and the magnitude of postal volume losses, this percentage can only be determined by the quantitative measure of how many months the recession of concern compares with months of an average recession., and applying this percentage to define what is exigent and what is non-exigent in any given recession.

A. The Postal Service Failed to Re-Estimate the 2009ACR Model Using All Volume Data from the Economic Recovery, Thus Creating Errors in All Its Five Quantification Methods

The three attachments at the end of the Postal Service's Initial Comments following page 64 use three different estimates of what mail volume would have been absent the recession. These are shown in Table One below.

Table One

Three "Forecasts" of FY2011 Postal Volume "Without" the Recession

From Database Ending in 2009

Source	FCM	Standard	Total	Source
Attachment One	75.6	88.6	172.5	Thress Baseline Vol
Attachment Two	95.9	103.5	212.2	Use FY2007 Peak
Attachment Three	86.8	122.2	220.5	Add-back 2010 - 2011

Table Two below summarizes what the Postal Service views as the range of exigent mail volume losses for which it should be compensated through a rate increase.

From each of these volume losses, USPS estimates overall contribution to institutional costs lost due to the volume loss, and for some methods breaks the overall volume and contribution loss into losses by product. It is important to read the footnotes from Table Two to fully understand the source(s) used for the volume loss estimate. The "add-on" to these losses is expressed as the volume variable costs incurred that should not have been, had the Postal Service been able to cut these costs step-by-step with declining volume. The Postal Service argues that it could not keep up with the rate of declining volume in trimming these volume variable costs, and that they are therefore exigent losses for which it should be compensated.

Table Two

Five Methods for Estimating Mail Volume Lost from the 2008-2009 Recession

Quantification Method	Period Covered	Volume Loss	Source
Method One	FY2006-FY2009	35.6 billion	R2010-4[3]
Method Two	FY2008-FY2011	37.9	FY2007[4]
Method Three	FY2008-FY2009[5]	34.1	See Ftn 5
Method Four	FY2008-FY2009	34.1[6]	2009ACR[7]
Method Five	FY2008-FY2009	33.5	R2010-4R[8]
Method Five	FY2008-FY2011	46.2[9]	R2010-4R
Add-on	FY2007-FY2009	$4.6 billion[10]	R2010-4R

[3] R2010-4, USPS, Statement of Stephen J. Masse, Attachment 10.

[4] FY2007 projected as without recession volume for FY2008 – FY2011. PCCEM substituting FY2007 volumes in place of forecasted FY2011 volumes. Masse Attachment 10.

[5] RPW reports, SPLY volumes by product, FY2009 ACD unit contribution by product. FCM and Standard only.

[6] The same volume loss as Method Three is the starting point for Method Four. The three percentages from Footnote 7 below are then multiplied by 34.1 to arrive at a range of volume losses. The Postal Service argues that the 97% percentage is the best approximation, leaving a volume loss that is "recession-related" of 33.1 billion pieces.

[7] Response to GCA/USP-T2-1, Docket N2010-1, May 17, 2010. Percentages of volume decline that are recession related, 69.4%, 84.6%. USPS additional calculation for Initial Comments: 130% for FY2008, cumulative FY2008-FY2009, 96.9%.

[8] This method does not apply recession-related percentages as described for Method Four in Footnote 7. This method does not include any post 2009 recession related volume losses, that is volume levels for 2010 and 2011 that would have existed except for the recession minus actual volume levels.

[9] Method Four expanded to include volume losses from 2010-2011.

[10] The Postal Service argues that it could not reduce volume variable costs as quickly during the recession as the volume losses warranted. It argues, therefore, that it incurred extra costs it

Overall loss of contribution from the recession looking at just FY2008-FY2009 was $2.34 billion in FY2009 (for FCM and Standard Mail), whereas it was $5.57 billion (for all postal products) in FY2011 covering the period FY2008-FY 2011.

In arriving at its volume loss estimates in Table One and, ultimately, its calculations of loss of contribution by major product in Table Two the Postal Service in this remand case established its volume trend data including forecasts for 2010 and 2011 from its submission to the Commission on January 21, 2010 of the econometric demand model in the 2009ACR. The data extends from PFY1988 Qtr 1 through PFY2009 Qtr 4, along with a second data point from the economic recovery for October – December 2009.Unlike GCA's approach, it did not take advantage of the eight quarters of actual post recession data and re-run that econometric model and update the coefficients for the variables in the model.

Instead, the Postal Service used the FY2010 and FY2011 volume forecasts made originally as part of the 2009ACR, which ends with calendar year 2009 data. It then "generates" a "sources of change" analysis that it claims is similar to the one it submitted in response to GCA/USPS-T2-1 in N2010-1. This, and not a re-estimation of the coefficients of the 2009ACR econometric demand model using actual data that became available since it was released, is what the Postal Service means by "updated source – of – change analysis" in footnote 28 at page 45.

What is incredulous about this approach is that nowhere does it use any actual data after calendar year 2009, not to re-estimate its original GCA sources of change analysis through calendar 2009 let alone estimate those for 2010 and

---

should not have, except for the recession, in addition to volume and associated revenue and contribution losses.

2011. It takes the econometric results from the 2009ACR, including the forecasts made at that time for FY2010 and FY2011, and the coefficients estimated only from data before 2010. The Postal Service then analyzes the sources of variation in volume from those hypothetical 2010 and 2011 values and isolates the hypothetical amount due to the effect of the model's “macro-economic variables”, which are coefficients estimated without including the last six quarters of actual data from the recovery.

For example, the Postal Service's of recession caused volume losses estimate in Quantification Method Five is equal to the FY2011 “Before rates” volume forecast made in January of 2010 using data only through calendar year 2009 plus the sources of change for FY2011 that the model produces using data only through the end of calendar 2009, specifically, the macro-economic variables source of volume changes which the Service equates with the recession. It calls the procedure “adding back”.

The Postal Service's failure to re-estimate all the coefficients in its 2009ACR econometric demand model variables using all past data up through the most recent essentially destroys the credibility of all of its five methods of estimating volume losses from the 2008-2009 recession, not just Method Five. The 2009ACR model's estimated coefficients are not any longer valid for use as baseline (or “before rates”)projections, not only for 2010 and 2011, but also for 2007, 2008, and 2009. Adding six quarters of recovery data would produce different baseline coefficient values in the 2009ACR model, not only for FY2010 and FY2011, but for FY2008 – FY2009 as well. Depending on how far the database goes back in time, whether more recent data is more heavily weighted in the trend line, and whether only current long run trend lines are included, omitting the six most recent quarters of data could have a significant influence on the estimated model coefficients.

The Postal Service could have and should have: (1) used actual postal volumes to estimate 2010 volumes and 2011 volumes other than PFY2011 Qtr, assuming it has the last completed quarter RPW data available internally; (2) used re-estimated econometric demand relationships by running the model with all economic recovery data available; (3) re-estimated all sources of change calculated for the GCA interrogatory as well as 2010 and 2011; (4) isolated the macro-economic variable source of change for 2011; (5) added it back to the new baseline “Before rates” volume level for PFY2011. This does not imply GCA agrees with this approach for examining exigent volume losses. It does not. But for the Postal Service’s own approach to the matter to be at all credible, it would have to have conducted its exercise as above.

B. Non-Recession Related Causes of Falling Volume and the Broadband Diversion Trend Through PFY2011 Qtr 3

The two years of data for the economic recovery are critical to include in any credible examination of the current secular trend[11] in Internet diversion (or any other secular trend), and hence the degree to which diversion, as opposed to recession, influenced the volume of FCLM.

Those most recent six quarters of volume data differ substantially from the twelve previous quarters, which show a peak and a fall in volume through the trough of a severe recession. The most recent six quarters is critically important to include explicitly in estimating the model in this case because it is a distinct phase in the business cycle which deviates substantially from the formation of a peak and this particular trough.

[11] The original estimates of Internet diversion submitted by the Postal Service in response to GCA GCA/USPS-T2-2 were themselves flawed. Internet trends have been dominated by broadband in recent years including the post – recession period. The estimates from the 2009ACR used here by the Service not only exclude data on broadband since the recession ended, but include Internet data back to FY1997, before broadband became the dominant variable establishing the current secular trend of diversion, which starts in 2005.

Has the Postal Service in its "updated" "sources of change" analysis correctly (or at all) analyzed the impact of broadband diversion on FCLM and in particular single piece? The answer is "No". Its update includes data from 1988 through calendar year 2009. Such a coefficient estimate fails to recognize and isolate the new secular trend in Internet diversion from broadband. In its own response to GCA/USPS-T2 in N-2010-1, not mentioned by the Service at all here, the distinction between diversion data from 1988 through 2004, and from 2005 on cannot be more clear. This data is reproduced here later on in Section III. C.

Furthermore, as is explained and shown by figures in Section II. C. below, the Postal Service's approach cannot properly have isolated the current secular trend in broadband diversion because it omits consideration of all post 2009 data. GCA has shown in its initial Detailed Analysis, as well as in the discussion below in Section II. C., that the estimate of diversion and its relative importance compared to the recession cannot be estimated without using all six post-recession mail volume estimates for FCLM.

In summary, especially with respect to single piece FCLM, the Postal Service's approach to analyzing non-recession causes of volume decline misses the Internet forest in favor of identifying which species each tree is from looking at leaves.

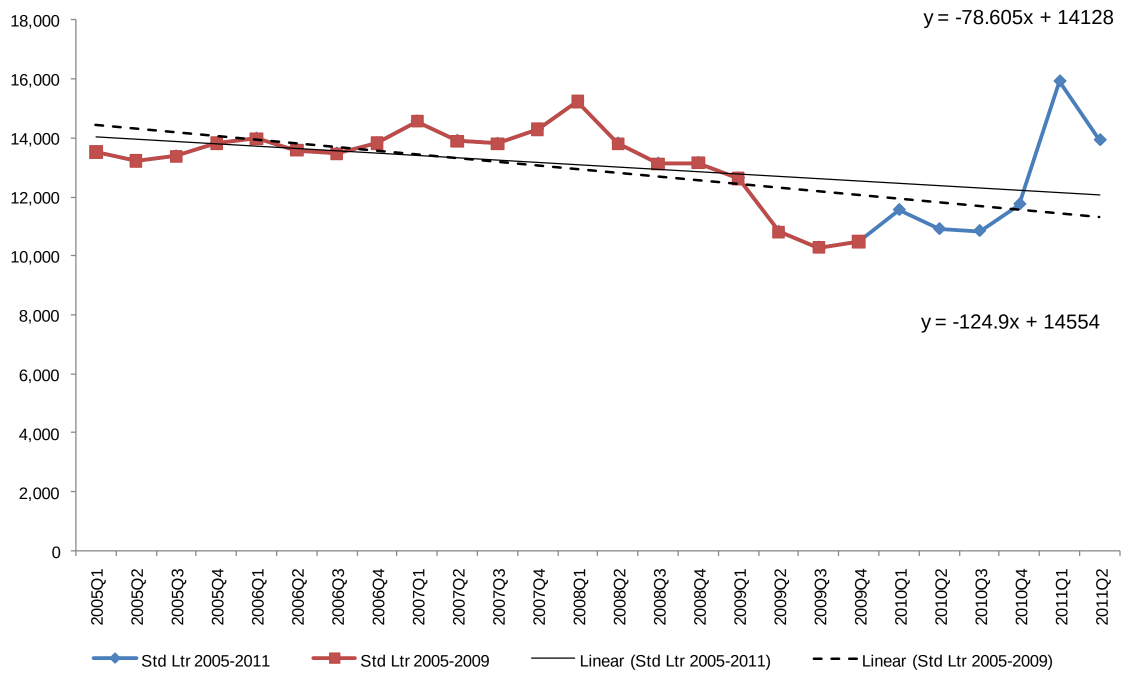
C. Illustrative Examples of How the Postal Service's Approach Exaggerates the Exigent Portion of Its Recent Mail Volume Declines

Given the multivariate character of the 2009ACR econometric demand model, it is difficult to illustrate the errors in the overall volume losses in Table Two due to the Postal Service's failure to re-estimate the model using the extra six quarters of data available for all his variables in this remand case as discussed in Section II. B. above. However, we can illustrate the error starting below in Figure One.

For Standard letters, the Postal Service's use of the 2009ACR model excluding the most recent data creates a greater impact on volume losses (the dashed line) than estimating the model coefficients including the most recent six quarters of (volume) data available (the solid line). Note, as stated earlier, that the impact affects the model structure even before the 2008-2009 recession. The estimated negative volume coefficient is substantially greater (-124.9) excluding the six quarters of economic recovery data than the coefficient which includes those six quarters (-78.6). By using the 2009ACR model coefficients for multiple variables which the Postal Service believes are non-exigent without re-estimating the model using available data past 2009 Qtr 4, the Postal Service has eliminated any credibility surrounding the volume loss estimates in Table Two above.

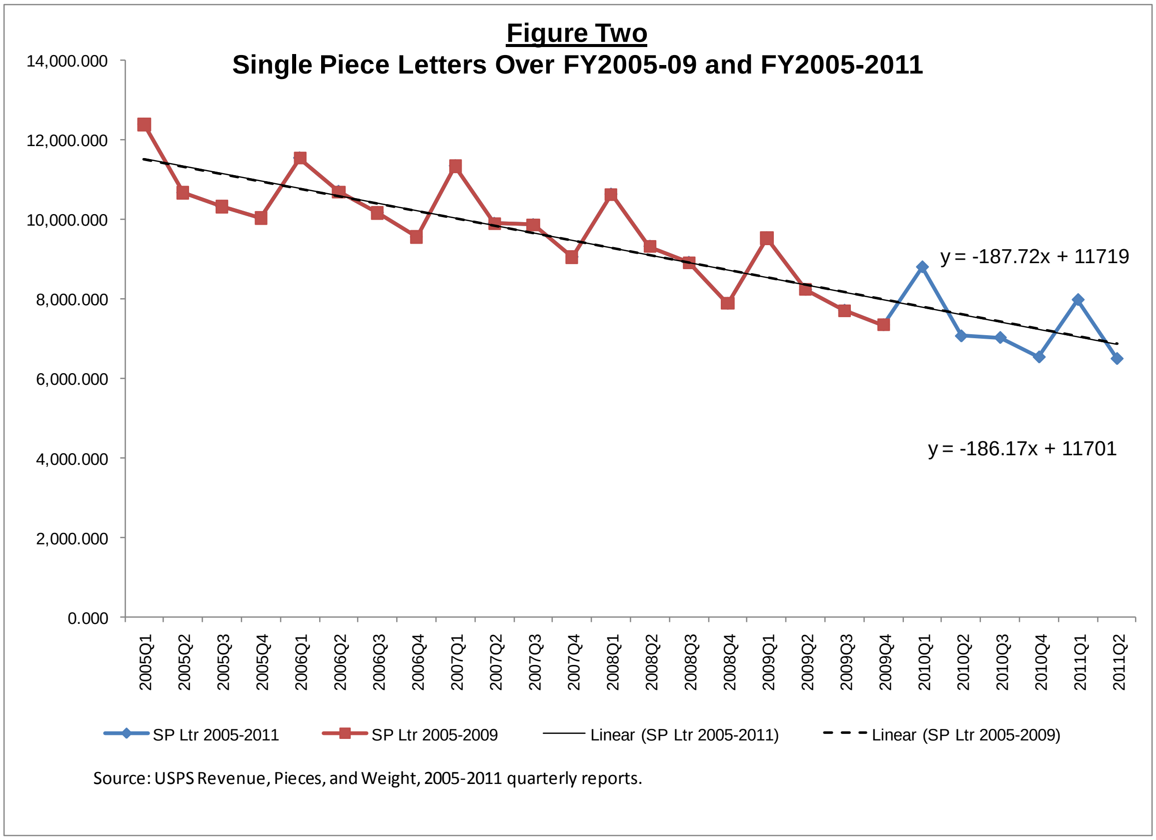
Figure One

Standard Letters Over FY2005-09 and FY2005-2011



Source: USPS Revenue, Pieces, and Weight, 2005-2011 quarterly reports.

The situation for First Class single piece letters is uniquely different. Whether the Thress model is run with or without the six quarters of post – recession data does not matter. The slope coefficients in Figure Two below are nearly identical, -187.7 without including the six most recent quarters, and -186.2 excluding the six most recent quarters, as was done with the P:ostal Service's application of the 2009ACR in this case. How is one to interpret this result? The minimal impact on single piece volume from adding the six quarters of macroeconomic recovery data is a strong indication that the pre-recession trend in single piece volume right through the end of the recession is fundamentally the same as the post-recession trend added to the 2009ACR estimations ending in 2009 Qtr 4. While the Postal Service's approach is designed and intended to measure the impact of the recession on mail volume, apart from factors other than the recession that influence mail volume, one conclusion that is consistent with Figure Two is that the recession had no impact on single piece mail volume at all. If it had, then any recession related estimations for its impact on single piece would show up as a different slope between the two lines in Figure Two, as it does for Standard letters in Figure One.



III. Comparing the Postal Service's Approach with GCA's Detailed Analysis in Its Initial Comments Helps Amplify the Lack of Credibility in the Service's Approach and the Relative Strength of GCA's Approach.

The Postal Service's emphasis originally in this case, and again in its latest arguments, is that the volume loss from before the recession through the present is the exigent event, not the recession. Beyond the legal analysis in the reply comments, an economic perspective on this emphasis based on pure logic is also necessary. To claim , in essence, that "the cause of the volume losses are the volume losses", risked rendering the Postal Service's entire request as one based on circular reasoning.[12] Fortunately, in this remand proceeding albeit

[12] If the Postal Service had declared the 2008-2009 recession as the exigent event in R2010-4, it would have had to confront directly the fact that recessions qualitatively are not exigent events. The Postal Service has weathered them for better or for worse for the better part of two hundred years since America's industrialization. The non-extraordinary nature of economic recessions generally is simply not a position that can be debated. This, of course, is a separate issue from how far (if at all) the 2008-2009 recession qualifies as "exceptional." Second, arguing that the volume decline was the exigent event made it easier to claim volume losses well before and well after the 18 months of the recession.

under strong protest, the Postal Service chose to rely on, or at least recognize, the Commission's definition of the exigency as the recession in its formal quantification of exigent losses using five different methods.[13]

A. The Impact of the Recession on Single Piece Using GCA and Postal Service Data Sets

The Detailed Analysis accompanying GCA's Initial Comments, Figure 1.A at page 11 and the slope coefficients of the equations estimated lead to the conclusion that the recession had no impact whatsoever on First Class single piece letter volumes over and above what broadband diversion was already doing. Figure Two above using the Postal Service's approach of omitting all available data after calendar year 2009 compared with GCA's approach of using all available data GCA's yields effectively the same result. This could only be true if the pre-recession and recession volume trend for single piece was the same trend as that including post recession data points. And that can only happen where secular influences affected the volume trend, but the short run influence of the recession did not. In making this argument, it is worth pointing out that if the recession did not impact single piece volumes, then the post

[13] The Postal Service criticizes the Commission at pages 27-28 of its Initial Comments, and again at page 30, for changing its own definition of the exigent circumstance, and not alerting all parties to the change before its Order No. 547 in the proceeding. It accuses the Commission of a "redefinition" of the exigency or as "redefining" the exigency, having a "misapprehension of the Postal Service's views", having "shifted the target—a shift that was shared with the parties only at the time of the Order." Two comments are in order. First, under § 3622(d)(1)(E) it is not incumbent on the Commission to accept the Postal Service's proposed definition of the exigency. If the Commission had defined in advance, by rule, precisely what the exigency would be, the Service might have a legitimate complaint, but the Commission has (wisely) done no such thing. It is worth noting that the relevant rule (39 CFR 3010.61(a)(3)) asks for an explanation of the extraordinary or exceptional circumstances "giving rise to the request." This is an invitation to the Postal Service to *explain* what it believes to be the exigency; it is not a delegation to the Service of authority to *determine,* for purposes of decision, what the exigency will be found to have been. Second, the Postal Service should recognize that the Commission "redefined" the exigent circumstance as the recession so that the case would be based on an external event constituting the exigency, rather than the Postal Service's insistence that the internal event (declining postal volume) had some meaningful causal relation, in statutory terms, to the internal loss (lost net contribution). The Commission was faithful to the intent of the statute in adopting an exigent event as the causal trigger, rather than using the circular reasoning of the Postal Service approach.

recession volume data for single piece is not lower than it otherwise would have been without the recession.

B. GCA's Use of NBER Dating of the Recession for Analytical Purposes and the Postal Service's Denial of Its Usefulness in Failing to Use All Post-Recession Data Available in Its Analysis

In GCA's estimation, the NBER dating of the trough of the 2008-2009 recession helps clarify the quantitative analysis of exigency in two very important ways: (1) dating of the length of the recession; and (2) dating the start and course of the economic recovery. The length of the recession enables us to drill down and simplify greatly the answer to the question: Was the 2008-2009 recession of average, below-average, or above average length?

The course of the recovery also helps define whether the recession in a qualitative sense was similar to or dissimilar to other post war recessions, and hence whether it was within this family of post-war business cycles for comparative purposes. To date, has it been a quick recovery to pre-recession levels of economic activity, a slow but steady recovery, or a halting recovery? The course of the recovery in a quantitative sense is extremely helpful in ascertaining whether and to what degree the declines in volume during the recession were due to those short run business cycle factors or to non-recessionary factors such as internet diversion. With the availability of post recession data to complement the pre-recession data, one has an available method to compare the secular course of mail volume by product, apart from the recession.

By contrast, because its fundamental view is that the volume decline and not the recession is the exigent event, the Postal Service almost treats with disdain the NBER's dating of the end of the recession and the Commission's reference to it in its Order No. 547. In its Initial Comments in this remand case, it grudgingly accommodates the Commission's position that the recession is the exigent event by shifting its starting focus from FY2006 to FY2007, but then states:

> But, on page 79, the Commission also goes so far as to cite the National Bureau of Economic Research's (NBER) determination that the recession "officially" ended in June 2009, and even indicates that including volume losses after that date in an impact assessment would be "problematic". That portion of the Commission's Order, however, neglects to mention that NBER did not even make its determination until September 20, 2010, two and a half months *after* the Postal Service submitted its request and filed Mr. Corbett's statement, and a mere 10 days before Order No. 547 was issued.
>
> (R2010-4R, USPS, Initial Comments, pp. 32 – 33, footnote 21.)

The tone of the Postal Service here suggests that by dating the end of the recession, NBER interfered with the Service's efforts to make the volume the exigent event rather than the (now defined) length of the recession. Whatever the Postal Service's intentions in the quoted passage, the fact remains that others do generally recognize the expertise of the Nobel Laureates and other highly esteemed macroeconomists who do officially date recessions, including the 2008-2009 recession.

All the intervenors in R2010-4 would have preferred to have the end of the recession dated before their comments and analyses were filed, GCA among them. The good news is that in R2010-4R, they have had such data available to use. However, as is clear from our review of the Postal Service's approach in Section II. above, it is clear the Service did not avail itself, and probably did not want to avail itself, to use the recession and post recovery data made possible by NBER's dating decision on the trough.

C. The Central Role of Internet Diversion in GCA's Analysis of How Much the Recession Affected FCLM Single Piece Volumes, and Its Complete Absence in the Service's Determination of Product Specific Exigent Volume Losses from the Recession

Especially with regard to the volume dynamics of single piece FCLM, it does not take much analysis by now, in 2011, to conclude that Internet diversion is responsible for nearly all the continuing decline in volume. It is common knowledge., It is not necessary to define a separate Internet variable beyond the actual time trend of mail volume to discern the impact of diversion on single piece FCLM. Whether or not, or by how much, the 2008-2009 recession added to the volume decline of single piece over and above the secular, continuing impact of broadband is one of the central questions in this case. The analytic approach GCA took in its Detailed Analysis accompanying its Initial Comments in this case, apart from only two weeks available to produce any analysis at all, was dictated by that central question.

GCA used RPW data starting with PFY2005 Qtr 1 and ending with PFY2011 Qtr 2, since the RPW data for April – June, 2011 was not publicly available yet. Monthly volume data for PFY2011 Qtr 3 was available from the Commission's website, and could have been combined with the RPW data, but the monthly data is not as accurate as the RPW, and was therefore not included.

The starting date of PFY 2005 was determined by the fact that in GCA's view, a distinct secular trend in Internet diversion of FCLM separate from the 1988 – 2004 trend, started in PFY 2005. This distinct trend is evident in the table below, which is reproduced from the Postal Service's institutional response to GCA/USPS-T2-2 in N2010-1. We attribute the new trend to the emerging dominance of broadband over earlier types of Internet service such as T1 for large organizations, and dial up or DSL for households and small business.

In contrast to GCA's focus, the Postal Service's approach in this remand case was not based on Internet diversion per se, but it was purported to be based on separating out the sources of mail volume dynamics overall, and by major product. The objective was to isolate the contribution the recession made to those volume dynamics, apart from other sources of which the Internet is one. In GCA's view, as noted earlier,in Section II. B., the Service's approach missed the broadband forest in favor of looking at relatively minor volume trees it concludes were not caused by the recession.

Table Three

Internet Diversion of First-Class Mail

(millions of pieces)

Yearly	Pieces	Percent
1988	(927.4)	-1.2%
1989	(827.1)	-1.0%
1990	(568.4)	-0.7%
1991	(911.9)	-1.0%
1992	(629.5)	-0.7%
1993	(308.1)	-0.3%
1994	(1,220.0)	-1.3%
1995	(1,984.4)	-2.0%
1996	(2,210.1)	-2.2%
1997	(1,758.0)	-1.8%
1998	(1,334.0)	-1.3%
1999	(2,501.4)	-2.4%
2000	(2,766.3)	-2.6%
2001	(2,045.8)	-1.9%
2002	(2,065.3)	-2.0%
2003	(2,301.8)	-2.2%
2004	(2,400.2)	-2.4%
2005	(3,006.1)	-3.0%
2006	(3,413.0)	-3.4%
2007	(4,164.9)	-4.2%
2008	(4,092.2)	-4.3%
2009	(4,052.8)	-4.6%

D. The Dichotomy Between How GCA and the Postal Serviced Determined Product – Specific Exigent Volume Loss Amounts

The first four quantification methods the Postal Service presents in its Initial Comments place nearly all or substantially all the financial burden from the exigency on First Class Mail. This is shown in Table Four below by the billions of dollars in contribution that is allocated to each class as a result of the lost volume from the exigent circumstance of the recession that is attributed to each class.

In fairness to the Service, at least part of the skewed contribution figures in the first four methods is due to the much higher unit contribution of First Class Mail. The relative exigent volumes are not as skewed between the two classes. It is unclear from the Postal Service's argument whether Method Five, and what we label as "Alt Method Five" is the cumulative result of its thinking on the issue through the first four stages, or simply the lowest amount it is willing to agree to as a settlement of the case. Regardless, First Class is responsible for 61% of the financial burden from the exigency in Method Five, and 51% in Alt Method Five. At the opposite end of the spectrum, if the Postal Service does not get its way in this proceeding, and goes back to Court, were it to argue for Method Two as the "due to" link, 80% of the financial burden from the exigency would be allocated to First Class Mail.

GCA's finding looking at product specific data is that the volume of First Class single piece letters was not affected by the recession at all. Accordingly, regardless of the Service's Quantification Method, single, piece bears no contribution burden from the exigent circumstance (defined as the recession.) Raising single piece rates due to exigent circumstances in this case would constitute subsidization of Standard mail's contribution burden from the recession. As we have stated earlier, our results for First Class Presort letters in this detailed analysis was anomalous, as it was in our detailed analysis associated with GCA's Initial Comments in this remand case.

In our view, the stark difference in results between GCA and the Postal Service is due to the fact that Internet diversion affects First Class letter mail, especially single piece, substantially, whereas if it affects Standard mail at all, it is not material. While more time would have enabled GCA to re-run the Postal Service's model including all post recession data, and/or would have enabled GCA to consider the association between single piece volumes and multiple factors, it seems reasonable with 80% plus R^2 from a basic linear time trend variable on single piece volume representing the continuous pressure from broadband with and without the presence of the recession that broadband diversion is causing nearly all the decrease. It is hard to find in the Postal Service's approach any serious attempt to compare the secular influence of Internet diversion on single piece volumes and the short run impact of the recession.

Table Four

Postal Service Proposals for Distribution of Exigent Institutional Cost Burden between First Class Mail and Standard by Quantitative Method
($ Billion)

	First Class	Standard	Total DM
Method One	NA	NA	$5
Method Two	$5.3	$1.2	$6.6
Method Three	$2.8	$0.9	NA
Method Four	NA	NA	$2.5 - $3.6
Method Five	$1.4	$0.9	NA
Alt Method Five	$2.8	$2.7	$5.5

Table Five below summarizes the findings of GCA's Detailed Analysis as to what product specific and all volume exigent circumstances are that are due to the 2008-2009 recession.

Table Five

GCA Proposals for the Product Specific Distribution of Exigent Volume Losses

	First Class	Standard	Total DM
From Section II.			
Pre-war recession	None	None	None
All U.S. recessions	NA	NA	3% of total lost Volume (0.2% Rate Increase)
From Section III.	None*	Most all**	NA

*Strongest case for single piece, periodicals, and FCLM as a whole
**Strongest case for Standard letters